

# ECONOMIC OUTLOOK AND POLICY RESPONSES IN EASTERN EUROPEAN COUNTRIES IN THE CONTEXT OF RECENT CRISES. CASE OF THE REPUBLIC OF MOLDOVA

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## **Abstract:**

*Recent global economic shifts stem from the pandemic and Eastern Europe's crisis; Moldova's proximity to Ukraine intensifies these impacts. The aim of the paper is to analyze the effects and policy responses adopted by the authorities of the Republic of Moldova as a result of the Ukrainian crisis emergence, and to define potential policy recommendations. The data used for the paper are official sources and open market data. The methodology is mixed and mainly based on analysis and synthesis.*

*Analysis findings suggest that monetary and fiscal authorities are not the main actors in the current circumstances, but act as supporters of wider national policies, but based on deep knowledge of economic interlinkages and the ability to holistic view, have to play an important role in shaping crisis management actions.*

**Keywords:** *Monetary policy and Fiscal policy, Crisis management, Geopolitical conflict economic effects, Policy Measures, Policy effects*

**JEL classification:** *E61, H00, H12*

## **Introduction**

The recent sanitary crisis and the geopolitical conflict in Ukraine emerged as two important unforeseen forces producing an influence on the current state of the world economy. At the time of steady recovery from the Covid-19 crisis, these were hit by the effects of the Ukraine-Russia geopolitical conflict which materialized in negative economic and financial repercussions and uncertainty in many respects for a larger geographic area. The inflow of refugees, sanction measures and distortions in supply chains have affected the economies, resulting in a rapid increase in commodities prices and inflation. The crisis is complex and requires urgent measures from the side of the authorities. Monetary and fiscal authorities are in a challenging situation which necessitates finding policy trade-offs in order to limit socio-economic stress and avoid the economy and population entering into a lasting depression.

The Moldovan economy, being in close physical proximity to the conflict area, has experienced a particularly pronounced impact, with its existing vulnerabilities being re-emphasized to a greater extent than in other regions. The effects of the neighboring geopolitical crisis have shed light on these weaknesses and triggered various policy responses from the Moldovan authorities. This research aims to analyze and examine the vulnerabilities of the Moldovan economy and the corresponding policy responses in the face of the Ukraine-Russia geopolitical conflict, as well as to define potential policy recommendations.

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The following sections will delve into an assessment of the weaknesses inherent in the Moldovan macroeconomic landscape and the policy measures or those which could be potentially undertaken by the government and central bank, to address the challenges posed by the crisis. By examining these aspects, the paper seeks to shed light on the specific vulnerabilities of the Moldovan economy, the implications of the geopolitical conflict, and the effectiveness of current and potential policy responses in mitigating socio-economic strains.

To achieve these objectives, the paper will adopt a structured approach. The literature review will serve as the foundation for understanding the context and identifying key research gaps that this study aims to address. The limitations of the literature review in this research paper can be attributed to several factors. Firstly, the unprecedented situations of the world sanitary crisis and the geopolitical conflict in Eastern Europe have created unique circumstances that to the best of knowledge may not have been extensively studied or documented in the existing literature. The dynamics and implications of these situations are complex and multifaceted, making it challenging to find comprehensive studies that directly address the specific context of the Republic of Moldova.

Moreover, the particular circumstances and features of the Moldovan economy further contribute to the limited scope of the literature review. The geopolitical situation of Moldova, with its close proximity to the Ukrainian conflict area, introduces specific dynamics and challenges that may not be adequately covered in the existing literature. The funding capacity, both domestic and international, available to Moldova may also differ from those of other countries, necessitating an understanding of the country-specific context and its implications for policy responses. In light of these factors, the authors of the paper primarily relied on the literature for data, seeking to establish a foundational base for the assessment and analysis of the effects of the Ukrainian crisis and the policy responses adopted by the Moldovan authorities.

While the limitations in the literature review are acknowledged, it is important to note that the mixed methodology employed in this study, combining analysis and synthesis, allowed for a comprehensive examination of the specific situations and circumstances of the Moldovan economy. The reliance on official sources, and open market data further facilitated the analysis of the effects and policy responses, ensuring the accuracy and validity of the findings.

Following the literature review, the research methodology will be outlined, highlighting the approach, data sources, and analytical techniques employed in the analysis. The subsequent sections will present the analysis of the Moldovan economy's vulnerabilities in light of the Ukraine-Russia geopolitical conflict. These sections will explore various dimensions, including the impact on trade, fiscal sustainability, financial stability, and insights on some aspects of the socio-economic situation. Additionally, the policy responses implemented by the Moldovan authorities will be examined, in order to make possible to identify areas for improvement.

The general macroeconomic outlook section examines the overall economic situation in Moldova and also in the context of the Ukrainian crisis. It assesses factors such as GDP growth, inflation, trade patterns, and proves, to the possible extent, a holistic understanding of the macroeconomic impact. The financial sector and monetary policy section focus on the resilience of the financial system in Moldova and the measures undertaken by the authorities to mitigate risks. It examines the stability of the banking sector, liquidity management, and the ways to rise the effectiveness of monetary policy in addressing the challenges arising from the crisis.

The public finance policy response section evaluates the fiscal measures adopted by the authorities to counteract the economic impact of the Ukrainian crisis. It assesses the government assistance programs, liquidity support for businesses and households, and how the effectiveness of these policies in addressing socio-economic stress can be increased.

The discussions and recommendations section presents a thorough analysis of the findings, highlighting the strengths and weaknesses of the policy responses and identifying areas for improvement. It offers policy recommendations to enhance the resilience of the Moldovan economy and mitigate the impact of future crises.

Finally, the paper will conclude with a summary of the findings, policy implications, and recommendations for potential future actions, which emphasize the importance of holistic crisis

management actions. By providing a comprehensive analysis of the vulnerabilities and policy responses in the Moldovan economy amidst the Ukraine-Russia geopolitical conflict, this study aims to contribute to the existing literature and inform policymakers and stakeholders in their efforts to navigate the challenges posed by such crises.

In summary, by examining the effects of the Ukrainian crisis on Moldova and evaluating the policy responses of the authorities, this research paper has a goal to contribute to the understanding of crisis management in the context of geopolitical conflicts, particularly, this research paper aims to investigate the vulnerabilities of the Moldovan economy in the context of the Ukraine-Russia geopolitical conflict and to draw strategic conclusions and recommendations. By analyzing the impact of the crisis on various economic dimensions and evaluating the policy responses, this study seeks to provide valuable insights for policymakers and other countries facing similar challenges, as well as to contribute to the existing knowledge surrounding the economic consequences of geopolitical conflicts.

## **Methodology**

The methodology of this research paper (research) is mixed and based on analysis and synthesis. The combination of analysis and synthesis research methodology in its essence consists of examining and combining information and ideas from different sources for obtaining a thorough understanding of a subject or an issue. The applied research methodology involved the following stages:

1. Determining the background of problematics and nature, source and origin of the issues, scope of research and intermediary objectives. Determining the preliminary methodology means permitting the achievement of research objectives.
2. Collecting information and data relevant to the research topic, through the official sources' such as government, central bank and supranational institutions influencing national policy making processes search; research reports and working papers and specialist articles' examination. Literature review and cited information, credited in the research, contributed to strengthening the arguments.
3. To determine the objectivity of the information on the criteria such as the absence of political bias, relevance, quality, and validity in the context of the research - reviewing and evaluating the information sources' through analysis and critical evaluation of information was applied.
4. Identifying the key information and statements, which constituted from important themes, ideas, and concepts' identification and their organization into logical and coherent statements?
5. Data analysis constituted of analyzing the data and information collected to, in the possible limits, identify patterns, potential trends, and relationships between variables. This involved mainly a qualitative analysis or openly prepared, structured and provided field data. The type of analysis was conditioned by the nature of the data and research objectives.
6. Synthesis of information, which involved the combination, interconnection and integration of the information and ideas from the sources reviewed for the development of an integrated and coherent understanding and development of the topic and the research problem. This process included formulating clear hypotheses about the optimality of existing policies and conclusions based on data analysis and evaluation.
7. Presentation of results included formulation of findings, arguments, conclusions, policy discussions, potential considerations, and recommendations, based on the conducted research, thus contributing to the knowledge base in the field of study.

The chosen mixed methodology proves to be fit and relevant to the researched topic as it allows for a comprehensive analysis and synthesis of the effects of the Ukrainian crisis and the policy responses in the specific context of the Moldovan economy.

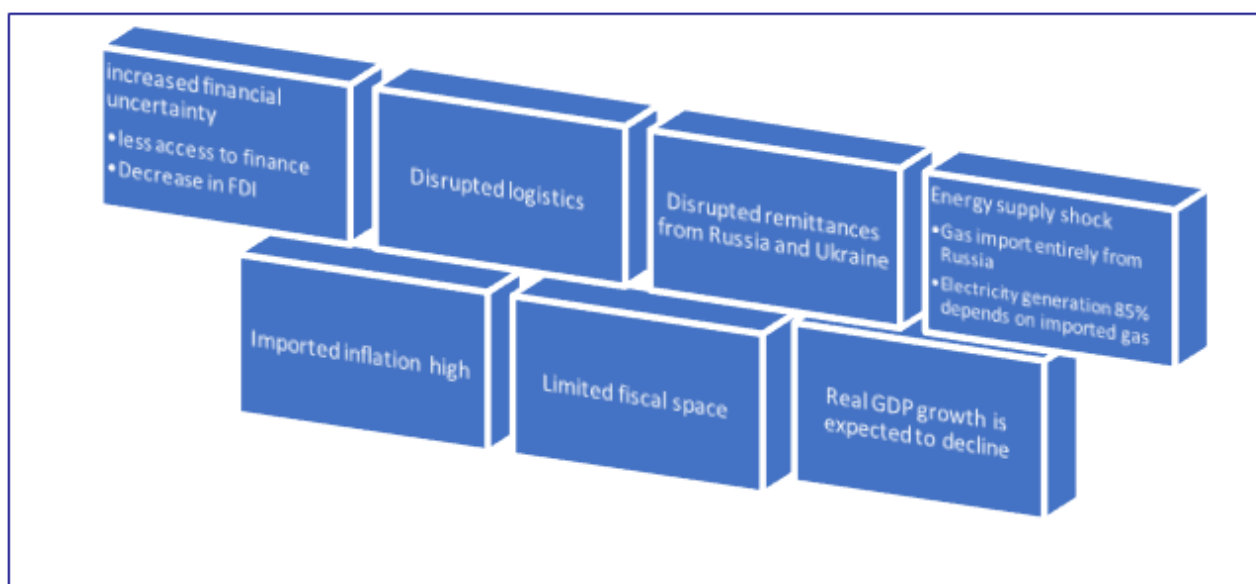
## General Macroeconomic Outlook

Moldova is a small landlocked country in Eastern Europe, which has experienced pronounced structural reforms since gaining independence in 1991. These reforms have aimed to transition from a centrally planned economy to a market-oriented system, although challenges persist in achieving full economic liberalization. Despite progress in implementing structural reforms, Moldova faces persistent challenges related to transparency, infrastructure, and foreign direct investment. These factors impede private sector development, hinder economic diversification, and constrain overall economic growth.

Since gaining the state independence, Moldova's Gross Domestic Product (GDP) per capita has been growing at an average pace of circa 5 per cent, marking decades of economic growth although volatile. Still being considered as one of the poorest countries in Europe, the Moldovan economy exhibits characteristics reflective of a transitional and emerging market. A feature of the Moldovan economy is its openness to international trade. The country has pursued integration into global markets through various trade agreements and participation in international organizations. However, the Moldovan economy remains susceptible to external shocks due to its high dependency on a few key trading partners, limited product diversification, and vulnerabilities associated with its geographic location.

Moldova's economic development is influenced by massive emigration, with a notable portion of the population looking for employment opportunities abroad. This emigration pattern has led to remittances playing a crucial role in the Moldovan economy, contributing to household income, consumption, and poverty reduction. Nonetheless, heavy reliance on remittances exposes the economy to risks associated with fluctuations in global labor markets and the situation of migrant workers. The declining population is seen as both an accompanying and contributing factor to the productivity dynamics. The main reasons therefor are the ageing of the population and significant rising emigration. A powerful shock to the relatively small Moldovan economy is the unprecedented inflow of Ukrainian refugees, who account for 13-17 per cent of the local population.

One characteristic of the Moldovan economy is its heavy reliance on agriculture, which contributes significantly to the country's GDP and employment. The agricultural sector encompasses various activities such as crop cultivation, livestock rearing, and viticulture. However, the sector's productivity and competitiveness are hindered by fragmented land ownership, outdated farming techniques, and limited access to modern technologies and financial resources. Supported by a strong agricultural harvest and stable private consumption growth, in 2021 the economy glowed by about circa 14 per cent reaching the pre-pandemic level. The Russian military conflict with Ukraine is anticipated to have a considerable impact on the GDP development of Moldova, explained by migration acceleration, trade effects, financial and economic ties and, not least important – the energy crisis. A more detailed mapping of conflict effects is presented in the Figure 1.



**Figure 1. Mapping of Russia-Ukraine conflict effects on the Moldova economic situation**

*Source: Elaborated by the authors based on World Bank reports*

According to the World Bank data, with a 78% market share and 11% GDP, IT services are Moldova's largest outsourcing sector and have a promising future because to low-cost labor and government regulations. A consumption-based Moldovan economy combined with important commodities import dependence, makes the Moldovan economy sensitive to current shocks. Moldova's economy is significantly dependent on the wholesale and retail sectors, making it especially sensitive to contemporary and current types of shocks. As per the data from the International Monetary Fund (IMF), disturbances in trade with Russia, Ukraine, and Belarus - which collectively represent approximately 24 percent of total imports and 15 percent of total exports of goods and services - along with international sanctions imposed on Russia and Belarus, exert strain on the current account and negatively impact net exports. Moldova is presently facing challenges in exporting its existing stock of agricultural commodities, including apples and wheat - for which Russia was the main trade partner - due to constricted land and maritime transit routes. Approximately 40 per cent of Moldova's food imports are sourced from Russia and Ukraine. The ongoing crisis is contributing to the increase in food prices, which had already witnessed a 20 per cent increase since 2021. Commerce repercussions with conflict-affected nations run the danger of impacting government revenues through trade.

Broadly, the surge in global prices, especially for commodities, food, and energy, coupled with disruption in trade routes, are projected to sustain inflationary evolution. Notably, Moldova's total dependence on Russian gas supplies for electricity production (85%) had already in 2021 led to higher energy consumer's prices. In response to escalating import prices, natural gas tariffs have tripled. Due to a substantial surge in global natural gas prices and a new gas supply contract agreed upon with Russia in 2021, Moldovan authorities increased the tariff for natural gas from about 5 lei per m<sup>3</sup> to 11 lei in 2021, and then to 15 lei at the start of 2022. The current tariff stands at 29 lei. A subsidized tariff was applicable in 2021, and a differentiated support program was prepared for the winter of 2022-2023.

The evolution of energy prices and domestic tariffs further impact inflation, diminish purchasing power, and exert stress on public finances.

In conditions of disrupted logistics, supply shocks, limited fiscal space, high inflation, and increased financial uncertainty, it is expected that the economy will stagnate while the current account deficit will widen as a result of decreased exports and the ongoing, steep increase in energy import prices. In this context, the resilience and preparedness of the national economy play a crucial role in managing the crisis. Also, such circumstances can be long-lasting and require coordinated efforts



from policymakers, central bank, and international institutions to mitigate risks, restore stability, and support economic recovery.

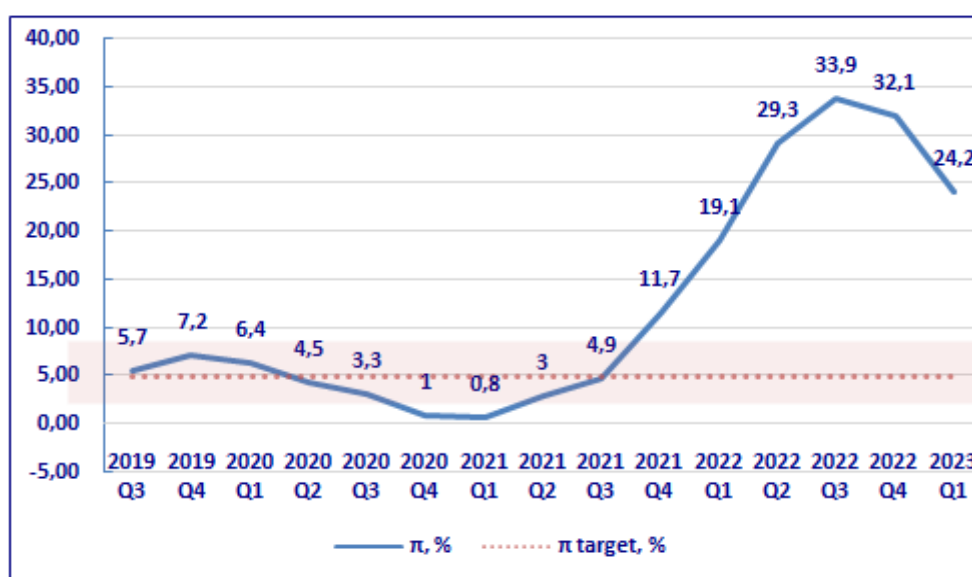
## Financial Sector and Monetary Policy

A geopolitical conflict in a neighboring country has far-reaching consequences for the national financial sector and monetary policy. These effects are primarily driven by the increased uncertainty and instability that come with armed conflict and geopolitical crisis in the region. Firstly, the financial stability of the Moldovan economy can be jeopardized as the outbreak of war leads to a decline in investor confidence, triggering human resources and capital outflows. Trade disruptions may make the managing trade finance and addressing the impact on the balance of payments challenging for the financial sector.

The central bank may struggle to effectively manage inflation, interest rates, and exchange rates due to heightened uncertainty and volatility. Adjusting policy tools and frameworks becomes necessary to address the changing economic conditions and maintain stability in the financial system. Banks and financial institutions may face increased risks such as non-performing loans, currency volatility, liquidity shortages, and disruptions in payment systems. Lastly, government's fiscal policy and debt management can be affected. The outbreak of war often prompts increased defence and security spending, resulting in higher fiscal deficits and increased government debt levels. Consequently, the financial sector may experience changes in government borrowing patterns and the availability of government securities in the market.

Russia-Ukraine conflict spillovers from the war affect the economy through several channels in the immediate near, near and medium time horizons. The average annual inflation rate is currently 34.29 per cent, which is primarily being driven by further rises in the cost of food and energy, pressure from depreciation, and changes to consumer's tariffs on the basic household needs. According to the latest projection round of the National Bank of Moldova (BNM) (BNM, 2022), annual inflation is anticipated to reach 29.5 in 2022 and 15.7 in 2023.

The anticipation is that commodity prices begin to achieve a degree of stability starting from the latter half of 2022. This stabilization is projected to lead to a reduction in inflation, starting from the end of 2022 and continuing into 2023. As trade disruptions subside and alternate supply sources are discovered, pressures from rising food prices are also anticipated to reduce. As a result, until the end of 2023, BNM expects inflation to remain significantly over the BNM's target range of 5 per cent. (Figure 2).



**Figure 2. Consumer Price Index (CPI) dynamics**

Source: elaborated by the authors based on the data of the National Bank of Moldova

Confidence effects associated with the invasion in Ukraine and international sanctions against Russia are continuing to pressure the currency market reserves, bank liquidity, and the government's borrowing capacity, as well as are expected private consumption and investment levels. This triggered tactical currency interventions from the central bank and on the market - bank deposit withdrawals, while the demand for foreign currencies euro and American dollar increased. Dollarization restricts the ability to implement the monetary policy. It hampers the economy's ability to respond to economic downturns or tailor policies to address specific domestic needs. With the weakening of the transmission mechanism, the economy may face challenges in managing the crisis and mitigating the impact of external shocks.

The financial sector in Moldova is predominantly concentrated around the banking industry, with a small share of non-banking financial institutions (NBFIs). Despite the regional conflict leading to liquidity strains in the financial system due to withdrawals of deposits in both national and foreign currency, banks have managed to cope, because Moldovan banks are highly capitalized - much above the regulatory levels - have balanced foreign exchange positions, and hold a significant part of the portfolio in government securities. However, this situation indirectly discourages private-sector lending outside of the financial sector. From the public finances' perspectives, under the conditions of a tightened monetary policy stance, the government's costs to sustain debt are also increasing, which combined with increased crises' cost and pre-crisis budgetary pressures create serious challenges to the public policies' decision-makers.

At the same time, while there may be initial uncertainty and market volatility during a neighboring geopolitical crisis, financial systems can demonstrate resilience and adaptability. Remittances act as a stabilizing factor, supporting consumption, investment, and contributing to the overall economic activity, where the financial sector plays a vital role in facilitating remittance transfers and providing financial services to the recipients.

In the responsibility of the central bank and regulatory authorities lies to implement measures to maintain stability, such as providing liquidity, implementing prudential regulations, and providing support to the affected sectors. By carefully monitoring the situation and employing appropriate policy tools, the central bank mitigates the adverse effects of the military conflict on the monetary stability. In a sensitive situation and limited capacity to deal with such a multilateral crisis, the international financial assistance and cooperation play an important role in stabilizing the economy and implicitly the financial system.

In the context of policy responses, although the currency level is not a target of the BNM, but as a part of a complex policy instruments, easing pressures on national currency, ensuring that the supply of foreign currency that had been interrupted by the closing of the airspace, the central bank increased the quantity of lei through its standing facilities, foreign exchange swaps, conducting market interventions. Foreign exchange intervention serves to achieving the main price stability goal and financial stability, along with the measures aimed at addressing the liquidity constraints. One of the biggest challenges remaining is the resumption of deposit runs and excessive demand for the foreign currency which erodes the reserves. In such a situation the central bank communication, confidence and credibility play a crucial role. Among other targeted measures, an open and transparent communication can help restore trust and alleviate concerns among depositors and the public. The central bank should clearly communicate its commitment to financial stability, its ability to provide liquidity support, and its readiness to take necessary measures to safeguard the banking sector. In extreme situations, the central bank may resort to imposing temporary capital controls to limit capital outflows and stabilize the financial system, these can include restrictions on withdrawals, limits on transfers abroad, or measures to discourage speculative activities. But these measures are typically used as a last resort due to their potential impact on financial markets and international reputation.

The IMF Article IV report (IMF, 2022a) chart, from the point of view of a complex analysis and deeper informativeness, conveniently depicts a combination of National Bank of Moldova (BNM) policy tools (Figure 3) - the BNM has increased the policy rates and intervened heavily amid inflation and currency pressures. The Ukraine conflict is exerting additional stress on the Moldovan leu. In response, the BNM has increased the base interest rate to 21.5 per cent and enabled the macroprudential tools.



**Figure 3. Monetary policy rates and interventions in dynamic**

Source: IMF (2022a), p.13

Supply-shock inflation is of concern for many central banks, obviously from the side of NBM further policy interventions will be expected as well. Difficult policy trade-offs are to be found in tackling high inflating while preserving growth and maintaining financial stability. The BNM based on the common knowledge and practice for similar situations, tightened its policy to prioritize the preservation of banking system liquidity and support economic growth, all the while maintaining sufficient foreign currency reserves to manage any unexpected shocks.

Modern central banks, having well-developed analytics tools, conduct predominantly data-based and data-driven policy actions and argue that decisions should continue to be data-dependent. Professional judgement applies as well, for maintaining sound contingency plans, considering the risks of second-round effects and potential further risks' amplification and intensification.

Critics of tightening or fast tightening, are based on households and business shocks, that such a policy produce, and amplify recession. From a point of view, once the inflation is driven by costs of energy and food products, central banks should have a lesser role in the management of current structural inflation, but only support the general government policies. It is therefore recommended to reconsider other policy instruments, which would have a "softer" impact on the participants to the economic relations by helping in making the crisis' effects less felt and shorter, as well as by preserving the value of population's monetary assets.

## Public Finance Policy Response

As UN document (Molina et al., 2022, p. 8) gives a broad but comprehensive taxonomy of the policy support toolkit: "the governmental policy toolkit for protecting people's livelihoods has several options: one-off or timebound income support; in-kind and quasi-cash transfers (e.g., school-feeding and vouchers); "blanket" subsidies (e.g., price caps or freezes); unemployment insurance; and tax cuts (e.g., VAT or fuel tax). Each of these options brings advantages but also its own set of challenges—including delivery capacities and fiscal sustainability". Each of the options can move in a certain direction and have effects on another key policy areas, therefore, based on natural logic, authors call for a strong context understanding. The UN study (Molina et al., 2022) results contain the idea that the most developing countries move in the direction of price-related policies, being justified by the urgency to respond to price spikes.

Through the lenses of mentioned taxonomy, despite having a constrained budget, the government of Moldova has responded to the sanitary crisis by combining income assistance programs and policies meant to increase liquidity for businesses and households. Russian invasion of Ukraine emerged in a crucial policy and budgetary need in many respects as well: big inflow of refugees requiring humanitarian and administrative assistance, hindered access to finance for many, due to



declining asset quality, bank runs, and the most important – support of household in dealing with higher food and energy prices.

The authorities adopted a supplementary budget to respond to the shock from the military conflict in Ukraine:

- Aside from external aid, according to the IMF (IMF, 2022a), high inflation boosts revenues by 0.7 per cent of GDP, while higher external grants add a further 0.3 per cent of GDP. Consumption-based taxes comprise around 45 per cent of revenues. Even in conditions of decreased demand, higher price inflation is anticipated to keep nominal consumption-based revenues high. However, concerns still exist for those revenue categories that are less susceptible to inflation.

- Expenditures increased to higher energy costs both for public sector need and households, but also to cover the humanitarian needs of refugees. A targeted household energy costs subsidy scheme was put in place for both winter 2021-2022 and 2022-2023.

High inflation has also put a strain on household budgets, and for preventing a significant drop in living standards and guaranteeing the delivery of essential services, adequate indexation of wages, pensions and social protection payments are necessary. In such circumstances, an increased use of public funds in one of the pillars to sustain the crisis management. Enhancement of effective budget execution and monitoring processes, improving procurement practices, enhancing financial reporting and auditing mechanisms, and strengthening internal controls to prevent corruption and ensure proper use of public resources – all these need an accelerated implementation in order to build resilience in face of the current shocks.

For the assistance receiving country as Moldova is, it is essential to work on sound debt management practices for strengthening the fiscal stability. One should not overlook the opportunity presented by a crisis, as it provides a chance to develop a comprehensive debt management strategy, establish transparent debt sustainability frameworks, and exercise cautious borrowing practices. It is crucial to meticulously evaluate debt levels, repayment capacity, and the associated risks to avert the accumulation of unsustainable debt burdens.

Although all the attention is turned towards the current problems, but enhancing the overall public sector crisis resilience would have longer-term effects. For example, enhancing the revenue mobilization, which is vital for the fiscal sustainability in time, will create a solid base to the improving tax administration, stimulate the reducing of tax evasion, broadening the tax base, simplifying tax system, ensuring a fair and efficient tax structure and strengthening the fiscal discipline. Measures such as exploring non-tax revenue generation opportunities, such as public-private partnerships should be considered as these, by their flexibility, could significantly contribute to strengthening revenue streams and participation in the policy toolkit.

## **Discussions and Recommendations**

In circumstances of an energy security crisis, the government should mobilize urgent efforts to develop and diversify its capacities primarily in the fields that as a result of the crisis were found to be problematic and vulnerable. In that sense, competent authorities shall urgently review the energy policy in light of the changing energy markets' environment, develop contingency plans considering the lessons learned during the crises and deploy alternative energy sources projects suitable to Moldova's regional characteristics. Taking into account that problems are multifaceted, the search for solutions creates a base for stronger cross-sectoral cooperation thus strengthening optimal policy formulation capacities and providing opportunities to solve more problems at once, for instance, energy sectors' challenges are interconnected with social well-being through costs, as well as climate, environmental and economic aspects.

To enhance government and central bank policies in order to tackle recent and current supply-side shocks, while limiting recession effects, several key principles and strategies could be considered:

- It is essential for policymakers to demonstrate adaptability and preparedness in response to fluctuating economic circumstances. This may necessitate improved synchronization between fiscal and monetary authorities, along with modifications to the intensity and emphasis of policy measures

as the situation unfolds. For instance, policymakers could adjust their fiscal stimulus or monetary contraction programs depending on the severity and duration of the supply disruptions, as well as their impact on inflation and growth expectations. The failure to rightly balance the policy response is necessary to avoid overreacting or underreacting to the supply-side shocks, which may cost the economy in terms of lost growth. Tailoring the actions to the specific needs and conditions of the economy prevents policy mistakes that could worsen the situation or create new problems, such as triggering inflationary pressures, distorting market signals, or undermining confidence and credibility, which are difficult and takes long to restore.

- It is suggested that policymakers focus more on the active implementation of modern structural reforms that can bolster the economy's ability to withstand prolonged supply-side shocks. At least, the policymakers could prioritize reforms that can improve the resilience and diversification of the energy sector, such as expanding renewable energy sources, enhancing energy efficiency, and reducing dependence on external suppliers. Identifying and investing in the development of infrastructure, including energy infrastructure, fostering human capital, promoting innovation, enhancing labor market flexibility, and encouraging competition. It's crucial to explore and efficiently implement reform strategies, including the investigation of potential trade-offs, challenges, and possible effects.

Implementing modern structural reforms are aimed to bring efficiency to the crisis response policies because they are expected to enhance the productivity, competitiveness and diversification of the economy, implicitly its resilience. This will reduce the vulnerability of the economy to external shocks, as well as its reliance on fiscal and monetary stimulus, and instead foster sustainable and inclusive growth and development.

Diversification of the economy is essential to reduce dependence on traditional sectors. By promoting the development of high-value-added industries, such as technology, innovation, and research, Moldova can leverage scientific advancements to foster economic growth and external competitiveness. This involves fostering collaboration between academia and industry, and creating supportive policies for startups and entrepreneurship.

Infrastructure development plays an important role in attracting investments and supporting economic activities. Robust transportation networks, digital infrastructure, and energy systems enhance connectivity, reduce transaction costs, and promote trade and investment. Emphasizing sustainable and green infrastructure also contribute to long-term environmental sustainability and resilience.

In an emerging economy, the strengthening institutions and governance is a basic necessity for creating an enabling business environment. Measures to reduce corruption, streamline bureaucracy, and enhance the rule of law foster investor confidence and attract foreign direct investment. Implementing effective regulatory frameworks and enforced property rights provide stability for businesses, encouraging innovation and growth.

Investments in human capital, such as education and skills development, enhance workforce productivity in medium and long term. Access to quality education, vocational training programs, and lifelong learning opportunities equip the workforce with the necessary skills for integration in a modern labor market of a rapidly changing global economy. More focused alignment of educational systems with labor market needs ensures a skilled workforce that contribute to economic growth and bring social benefits.

Promoting technology transfer through collaboration between academia, research institutions, and industry facilitates the practical application of scientific knowledge. Establishing innovation ecosystems, supporting research and development activities, and fostering public-private partnerships encourage innovation, technology adoption, and the creation of new industries and job opportunities.

Through these structural reforms and by harnessing scientific advancements, Moldova can significantly enhance its resilience. Reduced reliance on fiscal and monetary stimulus fosters sustainable and inclusive growth, ultimately improving living standards for the population. By embracing these structural reforms, countries Moldova can realize its potential and pave the way for exiting the crisis and also to the long-term economic prosperity.

- Fiscal and monetary management should be prudent during both crises and 'normal' times. It is incumbent upon authorities to maintain a robust financial position to ensure they can react to supply-side shocks without resulting in unsustainable public debt levels, ensuring that revenue and expenditure policies are aligned with long-term development goals. Moreover, policymakers should ensure that their fiscal and monetary interventions are transparent, accountable, and consistent with their long-term objectives and commitments. However, this task can be challenging, particularly in the presence of restrictive policy programs and the ongoing demographic crisis faced by Moldova. Nonetheless, by adhering to principles of efficiency and good governance, policymakers can overcome these challenges and effectively manage their interventions. Efficiency principles emphasize the need to maximize the impact of interventions while minimizing costs and resource wastage. Policymakers should strive to design and implement policies that achieve the desired outcomes in the most effective and efficient manner.

Good governance practices, such as transparency, accountability, and stakeholder engagement, provide a framework for sound decision-making and effective implementation of interventions.

Transparency is essential in ensuring that the decision-making process and outcomes of fiscal and monetary interventions are clear and accessible to the public. This requires policymakers to provide comprehensive information about the rationale, goals, and expected impacts and results of their interventions. By doing so, they will foster trust and confidence among citizens, businesses, and investors.

Accountability is another key aspect that policymakers must prioritize. They should be held responsible for their actions and outcomes, both in terms of meeting the objectives set for their interventions and managing public funds effectively. By establishing robust mechanisms for monitoring and evaluation, policymakers can ensure that their interventions are delivering the desired results and making efficient use of available resources.

Finally, the consistency with long-term objectives and commitments is important to avoid short-term decision-making that may undermine sustainable development and long-term stability. Policymakers should align their interventions with overarching goals such as reducing inequality, promoting sustainable growth, and ensuring fiscal sustainability. By maintaining consistency, policymakers will provide a stable and predictable environment that encourages investment and economic progress.

- Internationality and multilateralism are vital to an efficient cooperation. Given that the current crisis impacts multiple sectors and geographic areas, governments and central banks should collaborate internally and with their international counterparts to coordinate policy responses and exchange best practices. This could entail harmonizing regulatory frameworks, facilitating cross-border trade and investment flows, sharing information and data, providing mutual assistance and support, and participating in regional or global initiatives and institutions.

Not the least role of fostering synergies, is that through them is possible to promote mutual learning and cooperation, which can facilitate the identification and implementation of best practices and solutions.

The findings of this analysis suggest that while monetary and fiscal authorities are not the main actors in the current circumstances, they play a crucial role as supporters of wider national policies. In light of their deep knowledge of economic interlinkages and the ability to take a holistic view, monetary and fiscal authorities must contribute significantly to shaping crisis management actions.

Through re-emphasizing the importance of efficient principles and strategies, the government and the central bank will enhance their policy responses to the current supply-side shocks, minimizing the risk of causing a recession and ensuring a more resilient and stable economy.

## Conclusions

The primary channels of transmission of the conflict in Ukraine are financial markets interlinkages, disruptions to the logistics and trade, accelerated migration and supply-side inflation - all of which have a significant impact on the economy and society's wellbeing. For an externally dependent country as Moldova, the key specific risks continue to include disruptions in the energy supply and

a further unanticipated rise in energy prices. Lost opportunity trade-related profits, social support programs and government debt financing erode fiscal sustainability and at the first sight, minimize the space for government actions.

Additional but resultative risks in the financial sector include deteriorating confidence effects, which would increase systemic liquidity constraints and put pressure on currency rates. The opportunity for the economy consists in the scenario, where when an armed conflict breaks out in a nearby country, it affects the trade relations with that country, but it can also open up new possibilities for the local industries to meet the demand that the war-torn country cannot satisfy. This can stimulate domestic output, export variety, and sectoral growth. Consequently, the financial sector may gain from providing and assisting these rising industries.

Government support is essential when an economy faces such prolonged supply-side shocks caused by a geopolitical crisis, because it helps stabilize the economy, protect vulnerable population, encourage investment and innovation, and foster coordination and cooperation among various stakeholders.

In current conditions of structural inflation, monetary policy and fiscal policy shall have a secondary/supportive role to other necessary key policies for talking current crisis. But the complex nature of risk factors, rise the opportunity for better policy cooperation and solving more of the problems with optimally combined responses. Therefore, in order to preserve growth potential and keeping living standards, would be appropriate to consider alternative policy tools and their better coordination with the social goals and policies. By adopting efficiency principles and good governance practices, policymakers will optimize the use of available resources, ensure effective allocation of funds, and implement measures that address the specific needs arising from the current crisis.

By focusing on critical areas and tasks in policy discussions, policymakers could develop a comprehensive and coherent approach to addressing current challenges, thus minimizing the risk of a recession, while ensuring the long-term stability and resilience of the economy and population's welfare.

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